



Internal Revenue Service Criminal Investigation

Tax Fraud Alert

Abusive Return Preparer Enforcement

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Overview

IRS Keyword: Fraud

Fiscal Year 2004
[Text Only](#) .htm

The IRS Criminal Investigation Return Preparer Program (RPP) was implemented in 1996, and established procedures to foster compliance by identifying, investigating and prosecuting abusive return preparers. The program was developed to enhance compliance in the return-preparer community by engaging in enforcement actions and/or asserting appropriate civil penalties against unscrupulous or incompetent return preparers. This is a significant problem for both the IRS and our taxpayers. Abusive return preparers frequently prepare bad returns for large numbers of taxpayers who, at best, are stuck with paying additional taxes and interest and at worse, depending on culpability, are subject to penalties and maybe even criminal prosecution.

Taxpayers should be very careful when choosing a return preparer. You should be as careful as you would in choosing a doctor or a lawyer. While most preparers provide excellent service to their clients, a few unscrupulous return preparers file false and fraudulent tax returns and ultimately defraud their clients. It is important to know that even if someone else prepares your return, you are ultimately responsible for all the information on the tax return.

Definition

A Return Preparer is defined as any person (including a partnership or corporation) who prepares for compensation all or a substantial portion of a tax return or claim for refund under the income tax provisions of the Internal Revenue Code.

Return Preparer Fraud generally involves the orchestrated preparation and filing of false income tax returns (in either paper or electronic form) by unscrupulous preparers who may claim, for example:

- inflated personal or business expenses,
- false deductions,
- unallowable credits or excessive exemptions,
- fraudulent tax credits, such as the Earned Income Tax Credit (EITC).

The preparers' clients may or may not have knowledge of the false expenses, deductions, exemptions and/or credits shown on their tax returns.

Return Preparation and Electronic Filing

The advent of electronic filing of income tax returns (ELF) and the availability of Refund Anticipation Loans (RAL) has provided additional means for abusive preparers to commit fraud.

Criminal Investigation, since 1977, has been screening suspected fraudulent returns. This is done by the Criminal Investigation Fraud Detection Centers (FDC) at each of the 10 IRS campuses where tax returns are filed. The purpose of the FDC is to detect refund fraud and return preparer schemes and refer them to the Criminal Investigation field offices for further investigation. Since its inception, Criminal Investigation, at the processing centers, has been successful in identifying in excess of \$2 billion in fraudulent refunds.

CI in conjunction with Information Technology Services (ITS) has developed the Electronic Fraud Detection System (EFDS). EFDS is a computer system used by CI that greatly enhances CI's ability to

identify and stop fraudulent filings. EFDS receives computer identification output of potentially fraudulent electronic filed tax returns, provides increased data for analysis and assists in the development of information relating to paper and ELF schemes. CI also uses YOUR leads to identify fraudulent return schemes.

Tactics Used by Dishonest Abusive Return Preparers

Dishonest return preparers use a variety of methods to formulate fraudulent and illegal deductions reducing taxable income. These include, but are not limited to, the following:

- Preparing fraudulent Schedule C, Profit or Loss from Business, claiming deductions for expenses that have not been paid by the taxpayer to offset Form 1099, Miscellaneous Income, or income earned from outside employment,
- Including false and inflated itemized deductions on Schedule A, Itemized Deductions, for:
 - charitable contributions
 - medical and dental expenses
- Claiming false Schedule E, Supplemental Income and Loss, losses
- Claiming false dependents

Helpful Hints when choosing a Return Preparer to ensure you don't hire an Abusive Return Preparer

IRS Criminal Investigation (CI) reminds you;

- Taxpayers are responsible for the accuracy of all entries made on their tax returns, which include related schedules, forms and supporting documentation. This remains true whether the return is prepared by the taxpayer or by a return preparer.
- Be careful in selecting the tax professional who will prepare your return. Some basic tips and guidelines to assist taxpayers in choosing a reputable tax professional are:
 - Avoid return preparers who claim they can obtain larger refunds than other preparers.
 - Avoid preparers who base their fee on a percentage of the amount of the refund.
 - Use a reputable tax professional that signs your tax return and provides you with a copy for your records.
 - Consider whether the tax professional offers electronic filing options and other payment options that you want.
 - Consider whether the individual or firm will be around to answer questions about the preparation of your tax return, months, even years, after the return has been filed.
 - Never sign a blank tax form.
 - Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received?
- Tax Evasion is a crime, a felony, punishable up to 5 years imprisonment and a \$250,000 fine.

When in doubt, check it out! Taxpayers hearing claims from preparers offering larger refunds than other preparers are encouraged to check it out with a trusted tax professional or the IRS before getting involved.

Statistical Data

How to Interpret Criminal Investigation Data

Since actions on a specific investigation may cross fiscal years, the data shown in cases initiated may not always represent the same universe of cases shown in other actions within the same fiscal year.

	FY 2004	FY 2003	FY 2002
Investigations Initiated	206	229	254
Prosecution Recommendations	167	169	89
Indictments/Informations	121	109	61
Sentenced	90	49	76
Incarceration Rate*	84.4%	83.7%	86.8%
Avg. Months to Serve	19	19	23

*Incarceration may include prison time, home confinement, electronic monitoring, or a combination thereof.

Examples of Abusive Return Preparer Investigations

The following examples of Abusive Return Preparer Fraud investigations are excerpts from public record documents on file in the court records in the judicial district in which the cases were prosecuted.

Tax Preparer Sentenced for Tax Fraud and Worker's Compensation Fraud

On September 20, 2004, in Greenbelt, MD, John A. Williams was sentenced to 40 months in prison, followed by three years of supervised release and ordered to pay \$144,443 in restitution after a jury convicted him for worker's compensation fraud and aiding and assisting in the preparation of false tax returns. From about 1998 until 2002, Williams falsely certified to the Office of Worker's Compensation Program and to the IRS that he was not working, when, in fact, he was running a tax preparation business. Through this business Williams was preparing false and fraudulent tax returns, by creating fictitious deductions, expenses and other information on Schedule A's and Schedule C's.

Memphis Return Preparer Jailed for Preparing False Tax Returns

On August 31, 2004, in Memphis, TN, Tenika Shevette Finnie was sentenced to 18 months in prison for preparing false income tax returns. Finnie pled guilty on May 28, 2004 to preparing tax returns on which she reported inflated wages and tax withholdings and false itemized deductions, for tax years 1999, 2000 and 2001. She prepared returns at a different location each year for her clients, in return for a share of the resulting false refunds that totaled \$119,243. Finnie was instructed to serve three years of supervised release and ordered to pay \$13,681.00 restitution to the bank that issued the refund anticipation loans based upon the false returns.

Tuskegee Woman Receives Over Three years in Federal Prison for Preparing Bogus Tax Returns and Stealing Client's Identity

On August 31, 2004, in Montgomery, AL, Erma Weaver Lawrence pled guilty and was immediately sentenced to 37 months imprisonment, followed by three years supervised release and ordered to pay

\$67,695 in restitution to her victims. Lawrence entered a guilty plea to four felony charges and one misdemeanor charge relating to her preparation of false tax returns, forgery of two rapid refund checks, misuse of a tax client's social security number to apply for a credit card, and fraudulent claim for a tax refund. Lawrence admitted to preparing returns claiming false dependents, bogus deductions, nonexistent income, and incorrect taxpayer statuses.

Covington Return Preparer Sentenced

On August 18, 2004, in Covington, TN, Barry Gray, a tax return preparer was sentenced to 24 months in prison followed by 1 year of supervised release. Gray was also ordered to pay a special assessment of \$1,000.00 and restitution of \$11,124.00 to the IRS. Gray was indicted on November 25, 2003, charged with 21 counts of filing false claims against the United States. According to the indictment, Gray knowingly assisted in the preparation of 21 Amended U.S. Individual Income Tax Returns (Forms 1040X) that included an Education Tax Credit (Hope and Lifetime Learning Credit) that Gray knew to be false and fraudulent and caused them to be sent to the Internal Revenue Service. These fraudulent credits ranged from \$300 to \$1,500. As part of Gray's plea agreement Gray admitted that the tax loss for sentencing guidelines purposes is \$376,395.

Illinois Man Sentenced for Tax Fraud

On August 12, 2004, in Chicago, IL, MacArthur Cooper was sentenced to 3½ years in federal prison, followed by three years supervised release and ordered to pay more than \$32,000 in restitution to the Internal Revenue Service. Cooper was indicted in April 2003 by a grand jury, accused of claiming hundreds of thousands of dollars in false tax deductions. Between 1999 and 2000, Cooper prepared approximately 230 amended returns for tax years 1996 and 1997 falsely claiming millions of dollars of casualty losses from two floods that struck the area in 1996 and 1997. Cooper was paid between \$50 and \$400 for each amended return he prepared. The amended returns prepared by Cooper resulted in false and fraudulent refund claims of approximately \$658,000. Cooper was originally charged with two counts of mail fraud and 21 counts of preparing false tax returns. In the plea deal, Cooper pleaded guilty to one count of mail fraud and a single count of preparing a false return.

South Florida Auto Sales Owner Sentenced to 57 Months in Prison

On July 16, 2004, in Ft. Lauderdale FL, Bruce Stelzenmuller, a/k/a Bruce Muller, was sentenced to 57 months imprisonment and three years supervised release after having pled guilty to a thirteen (13) count indictment that charged him with conspiracy, false statements, bank fraud and tax evasion. Stelzenmuller was also ordered to pay restitution to the FDIC, First Union Bank, and Ford Motor Credit in the amount of \$2,475,206.90 and to pay back taxes as determined by the IRS. From 1992 and continuing through 1999, Stelzenmuller employed co-conspirator Irwin Millstein to perform bookkeeping services and prepare false and fraudulent individual and corporate tax returns, called "specials". Stelzenmuller, in turn, provided the "specials" to the FDIC in order to settle a \$2.4 million outstanding judgment for less than full value. Stelzenmuller owed the \$2.4 million judgment as a result of loans obtained from the First Commercial Bank of Florida, which was taken over by the FDIC in December 1990. Millstein was sentenced in 2001 to 27 months in federal prison after pleading guilty to filing false tax returns for himself and his clients.

Owner of Return Preparation Company Sentenced to 27 Months

On June 23, 2004, in New Orleans, LA, Joyce D. Gaines was sentenced to 27 months in federal prison followed by three years supervised release and ordered to pay restitution in the amount of \$121,591. Gaines pled guilty on March 18, 2004, to willfully aiding in the preparation of false federal income tax returns and conspiracy to prepare false federal income tax returns. Gaines was the owner and operator of One Day Tax and Bookkeeping Services, a tax preparation service and provided tax return preparation services to customers for a fee. Gaines would advise the taxpayers that a substantially larger tax refund could be obtained if the taxpayer falsely claimed dependent children on the return. Tamicka Davis, the

daughter of Gaines was an employee of One Day Tax and Bookkeeping Services and maintained a listing of children and their corresponding social security numbers in a spiral bound notebook. Davis is scheduled to be sentenced on July 14, 2004.

Hyannis Man Sentenced to Prison for Immigration and Tax Fraud

On May 25, 2004, in Boston, MA, Joarez Reis, pleaded guilty to all fifty-four counts of an indictment charging him with mail fraud, making false statements to a federal agency, and presenting false claims against the United States. Immediately after accepting the guilty plea, Reis was sentenced to 30 months in prison, followed by 3 years of supervised release, fined \$6,000 and ordered to pay restitution totaling approximately \$43,000. From 1994 until June 2001, Reis held himself out as a provider of tax preparation and immigration application services, catering to Brazilian clients, many of whom spoke little or no English. Reis charged individuals a fee for helping them obtain permission to reside in this country. In actuality and unbeknownst to his clients, Reis submitted forged marriage certificates to the Immigration and Naturalization Service ("INS") in order to obtain temporary work permits. Reis also submitted change of address notices, so that the clients' paperwork would be sent to post office boxes that REIS controlled, thus lulling the clients into believing that Reis had performed the services they had paid for. In a separate scheme to defraud the IRS and the Massachusetts Department of Revenue, Reis used clients' names and social security numbers, without the clients' knowledge, to submit phony tax returns seeking refunds. By using his own post office boxes as the mailing addresses on the returns, Reis was able to pocket the refund checks, while keeping the clients from learning what he was doing.

Detroit Woman Sentenced for Preparing False Tax Returns

On May 11, 2004, in Detroit, MI, Maquilla Yvonne Squire was sentenced to 27 months in prison as a result of a guilty plea to two counts of aiding and assisting in the preparation of false and fraudulent tax returns. Squire prepared returns reflecting that clients made substantial gifts to charity, knowing that no such gifts were ever made. Other returns prepared included fictitious child care credits and other employment deduction. The total loss created by these false deductions totaled over \$730,000. Squire was also ordered to not prepare any future tax returns.

Tax Preparer Sentenced to 18 Months in Prison for Preparing False Income Tax Returns

On April 15, 2004, in Washington, D.C., Deidre F. Roy was sentenced to 18 months in prison, followed by one year supervised release, ordered to complete 150 hours of community service and pay restitution to the IRS for the amounts she owed as a result of filing her own false income tax returns. In June 2003, Roy pled guilty to preparing hundreds of false income tax returns. Depending on the client's economic status, Roy employed several schemes to get the client a refund. For lower income individuals, Roy would add dependency exemptions which allowed her to give clients tax credits such as earned income, child and dependant care, which they were not entitled to. For higher income individuals Roy would prepare Schedule A's with false itemized deductions. Roy also admitted that she filed false income tax returns for herself for the tax years 1997 through 2001 by claiming refunds to which she was not entitled. The total tax loss resulting from Roy's criminal conduct was approximately \$434,287.

D.C Tax Preparer Sentenced to 20 Months in Prison for Preparing False Tax Returns

On April 14, 2004, in Washington, D.C., Duke Amir, who formerly operated the tax preparation service known as the D.C. Tax Center, was sentenced to 20 months in prison to be followed by one year of supervised release in connection with his scheme to defraud the United States and the Internal Revenue Service of more than \$204,000 by preparing false income tax returns. Amir was also ordered to pay restitution in the amount of \$117,326 to the IRS. Amir primarily employed two schemes fraudulently to reduce his client's tax liability and to obtain refunds for clients to which they were not entitled. First, Amir prepared Schedule A's with false itemized deductions which had the effect of reducing the adjusted gross income. Secondly, Amir prepared Schedule C Forms for client returns with false business expenses and gross receipts which netted out to business losses that had the effect of fraudulently reducing the total income and ultimately total tax for clients.

Tennessee Man Sentenced to 3 Years in Prison for Preparing False Returns.

On March 18, 2004, in Nashville, TN, James Leon Wray, was sentenced to 36 months incarceration and one year of supervised release. He was further ordered to not be involved in the preparation of taxes during his incarceration and probation period. Wray pled guilty to one count of aiding or assisting in the preparation of a false income tax return. Wray marketed himself as a tax recovery specialist and overstated his expertise by claiming to have formerly worked for the IRS. Wray orchestrated a scheme to place false information on tax returns to inflate the amount of his clients' refunds. The potential tax loss to the government for years 1996 through 2000 from Wray's scheme was \$561,998.

California Man Sentenced for Filing False Returns.

On March 15, 2004, in Oakland, CA, Troy Holland was sentenced to serve five years in prison for his conviction on 27 counts of aiding and abetting in the preparation of false returns. Holland was convicted in a jury trial last year that included evidence that Holland used his business, TMG Financial, to prepare false Schedule C's for clients containing substantial bogus losses to offset their taxable income. Holland was paid 50 percent of any tax refund. The Judge also ordered restitution of \$292,878 and ordered Holland never to prepare tax returns again for others. The court also ruled that the defendant attempted to obstruct the investigation and perjured himself at trial.

Owners of Ledesma Fast Filing Sentenced for Preparing False Income Tax Returns.

On March 9, 2004, in Brownsville, TX, Gustavo Ledesma and Francisco Ledesma, brothers who operated Ledesma Fast Filing were sentenced to prison terms for conspiring to assist in the preparation of false income tax returns. Gustavo and Francisco Ledesma were convicted of the federal offense in September 2003 after pleading guilty to the charge. Gustavo and Francisco Ledesma were sentenced to 37 and 46 months in prison, respectively, to be followed by a three-year term of supervised release. Both men were also ordered to pay restitution to the Internal Revenue Service in the amount of \$581,685. During the years 1997 through 1999, Gustavo and Francisco Ledesma operated Ledesma Fast Filing, an income tax return preparation service from about January 16, 1997, until March 16, 1999, the Ledesma brothers prepared and electronically filed false federal income tax returns for their clients through Ledesma Fast Filing. The Ledesma brothers falsified their clients' income tax returns in order to maximize their clients' earned income credit (EIC), which fraudulently decreased their clients' tax liability and increased their clients' tax refunds. The Ledesma brothers omitted dependents from some clients' income tax returns so that the same dependents could be claimed on other clients' income tax returns who needed an additional child to receive the maximum EIC. In many instances, the Ledesma's kept a portion of their clients' tax refund without their clients' knowledge or consent.

West Hartford Man Pleads Guilty to Tax Fraud.

On March 9, 2004, in New Haven, CT, Marc C. Abrahms pleaded guilty to a two-count Information charging him with tax fraud. Abrahms, the president and sole-shareholder of Abrahms Group Benefits Inc. and Abrahms Life Services, Inc, admitted that for years 1997 through 2000, he filed materially false corporate income tax returns in which he improperly claimed deductions for approximately \$729,000 worth of non-business-related expenses, including payments for domestic help, household services, personal travel and other expenses for the defendant's personal benefit. Abrahms also admitted that the individual income tax returns he filed between 1997 and 2000 materially understated the amount of income he earned during those years by failing to include as income the value of the personal expenditures paid for by Abrahms Group Benefits Inc. and Abrahms Life Services Inc. Abrahms acknowledged that he owes the Internal Revenue Service approximately \$297,525 in back taxes, exclusive of penalties and interest, as a result of his willful failure to file accurate personal and corporate income tax returns.

Return Preparer is Sentenced to Prison for 63 Months

On January 30, 2004, in Oxford, MS, Craig Allen Pruitt was sentenced to 63 months in prison followed by 12 months supervised release and fined \$6,000. Pruitt was found guilty by jury on 17 of 25 counts of aiding and assisting in the preparation of false amended income tax returns. Pruitt established an accounting office known as TAC Accounting and for several months prepared a high volume of amended U.S. Individual Income Tax Returns containing false deductions for business loss or bad debt loss. Pruitt charged an average of \$100 per return. All of the taxpayers for whom Pruitt prepared the amended returns listed in the indictment were audited, and the refunds based on the false deductions were denied.

Michigan Man Sentenced on Tax Charges

On January 12, 2004, in Detroit, MI, Char Lee Frazier was sentenced to 18 months in prison followed by one year of supervised release as a result of his guilty plea to obstructing the IRS. From 1995 to the present, Frazier did business as "Frazier's Accounting and Investment Services." Frazier also trained and raced harness horses. Frazier prepared false tax returns for six of his clients who were also involved in his harness horse business, by claiming over \$165,000 in excessive racing business expenses that they did not pay. Frazier prepared false monthly invoices and other records showing monthly cash payments, prepared and filed false Forms 1099-MISC reporting purported payments of income from his racing business and admitted that he lied to IRS special agents about these expenses and his client's involvement in the racing business and attendant expenses.

Las Vegas Tax Return Preparer Receives Federal Prison Sentence

On January 8, 2004, in Las Vegas, NV, Paul M. Vance was sentenced to 18 months in prison followed by one year of supervised release and ordered to pay \$120,224 in restitution after pleading guilty to one count of aiding or assisting in the preparation of false income tax return. During the period of his supervised release Vance is prohibited from engaging in employment consulting and from associating with any tax business. Between 1996 and 1998, Vance admitted to preparing individual income tax returns that falsely stated credits and deductions including filing status and EITC.

San Diego Return Preparer Sentenced

On December 8, 2003, in San Diego, CA, Roosevelt Kyle was sentenced to 12 months in custody. A jury convicted Kyle for failing to file his personal income tax returns for the years 1995 through 1998. Evidence at trial showed Kyle earned over \$300,000 and prepared over 3,000 tax returns, but failed to file his own personal income tax returns. According to evidence presented in court, Kyle promoted tax avoidance seminars, at which he advised clients that they could permanently stop paying income taxes. Kyle also promoted the book entitled, "Vultures in Eagles Clothing" which claims the income tax laws are not applicable to U.S. citizens. This book was written by Lynne Meredith, who is under criminal indictment in the Central District of California for various tax crimes.

Father, Daughter Sentenced for Filing False Reparation Claims

On October 23, 2003, in Richmond, VA, Robert Lee Foster and Crystal Demetria Foster were sentenced after being convicted in July 2003 of conspiracy to defraud the United States with respect to claims and of filing false, fictitious and fraudulent claims. Robert Foster was sentenced to 13 years in prison and Crystal Foster was sentenced to three years and one months in prison. Beginning in July 2001, Robert Foster assisted numerous persons, including Crystal Foster, in filing false individual federal income tax returns in which they fraudulently claimed refunds ranging from \$8,000 to \$500,000. Robert Foster also filed his own false individual federal income tax returns in which he fraudulently claimed a refund of \$500,000. The refund requests were based on alleged reparations for slavery, a claim which has no basis in the tax laws.

Pasadena Bowling Alley Tax Preparer Sentenced

On October 2, 2003, in Los Angeles, CA, Robert Oberholtzer was sentenced to 15 months in prison and ordered to pay a fine of \$10,000 after being convicted on 15 counts of preparing false income tax returns. Evidence at trial showed Oberholtzer overstated itemized deductions on his client's returns. Many of Oberholtzer's clients were young waiters and waitresses that learned of Oberholtzer through word of mouth and from workshops that Oberholtzer conducted.

For more summaries, visit www.irs.gov and enter Keyword: Fraud.

Where Do You Report Suspected Tax Fraud Activity?

If you suspect tax fraud or know of an abusive return preparer, you should report this activity to your nearest Internal revenue service office. This information can be communicated by phone or in writing to your local IRS office. You can contact the IRS by phone at 1-800-829-0433.